



## **RISK, CHALLENGES AND OPPORTUNITIES: INSIGHTS FROM SMALL AND MEDIUM ENTERPRISES IN OMAN**

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### **Abstract:**

This paper provides insights surrounding the challenges and opportunities of small and medium enterprises in Oman. Specifically, it plays up risk evaluation and credit supply as symbiotic players and as tools in propelling business productivity and sustainability. Qualitative approach has been used to elicit information, facts, trends and patterns to establish theories and beliefs as an input to the body of knowledge. Analysis presents that SMEs in Oman have been confronted both with numerous challenges and opportunities for which the author recommends government participation in bringing about financial support, sustainable programs and enabling public policies.

**Keywords:** risk, challenges, small and medium enterprises, opportunities

### **1. Introduction**

Small and medium enterprises are vital conduit in building a strong economy. They are viewed as immediate source of livelihood of owners and their workers since they are operating in a small to medium scale with easy mutual access to the needs of each other

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(Smith 2006). Corollary, they are forefront to providing resources to communities where they operate by means of services provided, income for local workers and revenue share to the government.

In other parts of the world, SMEs are operating at the expense of the goal to respond to the economic needs of the grassroots level. In fact, some governments have been in close coordination for these activities in their effort to activate a dual partnership towards growth, productivity and sustainability. For example, provision of credit supply through government banks and instrumentalities at a low interest rate, enforcement of protection clause and other relevant support.

The Sultanate of Oman has seen its fair share from SME sector since time immemorial. It is undergoing remarkable development as it tries to limit dependence on oil revenues. These positive changes are apparent in the growth experienced in SMEs and their contribution to the economy. This has been through employment, diversification of the economy, and reduction in the reliance on oil revenues. In fact, SMEs are expected to play a critical role in the country's GDP with the increased focus by both the public and private sectors to improve their contribution to the economy. The number of SMEs in the country is not clear. According to the National Centre for Statistics and Information (NCSI), the registration of SMEs has been slow over the years. Various programs, such as the Public Establishment for SMEs Development in Riyada, coupled with initiatives by the Petroleum Development Oman (PDO), have contributed to the increased focus on developing SMEs in the country. Other corporate entities in the country have also been keen on contributing to the development of SMEs in recent years. For instance, Haya Water has supported this growth by offering a large percentage of its projects to the SMEs.

Despite this creditable impact of SMEs to economy and to the grassroots, risk and challenges always linger to impact or impede results. One of which is financial risk which controls business efficiency and productivity more often than not. Financial risk usually relates to financing small business operations. This risk involves the possibility of business owners losing large amounts of capital when using debt financing for starting or operating their company. This also impacts on the supply of credit that is so important in surviving compelling business issues.

In the light of the foregoing, evaluation and assessment of risk plays an important role in determining internal and external threats affecting the profit or productivity in general. Through this, strategic action can be thought out, planned and operationalized towards sustainability. It is for this reason that this review came to life to provide information and data needed to shed light on the issues and challenges that SMEs in Oman are confined with.

### **1.1 Objectives of the Paper**

Oman is a country whose economy depends mainly on oil reserve. To date, it is one of the dynamically involved economic hubs in the gulf region with its proactive vision towards globalization. Its economic agenda have come into fruition as seen in the boost

of different sectors of the society. With the dynamic cooperation of public and private sectors to which SME belongs, economy has seen itself in advancement. Undeniably, SMEs have helped shape economic agenda into a tangible result in the way of life of Omanis and expatriates. As a matter of fact, however, SME has had its share of challenges particularly on the financial aspect which impacts credit supply and all others attached to economy. This paper ventured on establishing risk factors among small and medium enterprises in Oman in an effort to provide a wide array of information in aid of legislating and formulating body of knowledge that could showcase facts, ideas, solution, models and platforms to help SMEs meet their economic goals.

Particularly, it aims to ascertain the obtaining condition of SMEs in Oman as to risks and challenges they have been faced with through the years, and to offer interventions towards sustainability.

## **2. Methodology**

This paper revolves with qualitative approach. Qualitative approach is used when a study or any research type does not involve empirical data or statistical figures to support findings or results. In this article, the author has tried to discuss the value, risks, challenges, economic importance of the small and medium enterprises in Oman by virtue of related literature and researches in the local setting which are examined theoretically in aid of establishing facts, knowledge, patterns and trends.

## **3. Literature**

### **3.1 Economic Value of Small and Medium Enterprise**

Notably, SMEs are significant economic forefront in which people derive means for survival. In fact, different countries exceedingly capitalize on promoting this scheme as agent of economic stability because it provides essential employment for both educated and non-educated workers. In relation to this, Libert (1998) has it that almost 96% of countries' economies are shaped hugely by SMEs. This trend is an offshoot of its nature as easy to develop, needing only a marginal level of training and skills, not to mention the low financial requirement. With this, Tambawan (2008) has stated that with the low financial capital, SMEs usually turn out as start-up for any bigger ventures provided that capital, manpower, market and business strategies are geared towards competitiveness.

Additionally, Radas, et al (2009) posited the value of putting up own business over getting employed in a certain employer believing that there are better opportunities attached thereto. He cited that being an owner of an SME means having the power to generate profit, and an access to financial scheme of lending institutions which is for expansion, and an opportunity to build people by providing employment and communities by taxes and revenues. In support to this, Hallberg (1999) has a faithful belief that people are more sold to the concept of owning a business rather going into employment under a boss or manager.

In a fair position, Sawers, et al. (2008) have so far believed that by virtue of SMEs, countries' economy get direct stimulation towards growth as employment gets a boost and that money is circulated fairly from the rich to the poor. As also opined by Ayyagari, et al. (2007), he was quoted as saying that with SMEs' presence, government will be able to collect taxes and revenues which will be used to improve government infra projects, to finance economic programs and to deliver social services. An apparent cycle of benefit is clear. Bonk (1996) also sees the same view citing that quality infrastructure projects are essential growth factor for economy, and vice versa. Bonk is inclined to say that one is the offshoot of the other, hence as SMEs run their course, government must provide a protection law to ensure balance of benefit between the government and the SME owners. Bonk also rethinks that government infrastructure condition determines trust index, trade and market performance. Also, he says that with good infrastructure, foreign investors will be attracted resulting to a dynamic and inclusive economy.

### **3.2 Social Importance of SME**

With the growing popularity of SME, the world has turned into the heritage of smallness where business empires are decentralized and business monopoly has been shared far down from the glamorous bounds of cities to the rawness of rural communities. Dynamic as it may, SME has defined life in the social dimension as these days see a dramatic rise in the emergence of such. In fact, previous researches have claimed that 99% of today's business is represented by SMEs bringing about 69% of employment to diverse communities and people from different walks of life.

Researchers, economists and the like have all agreed that with employment from SMEs, nations, communities are provided with tools for survival, growth and even sustainability. In his study, Rollen (2008) posited that employment brings substantial premium for people, workers in particular, to afford their basic needs, the essentialities of survival such as food, shelter, clothing and utilities. Rolen is quoted as saying that employment brings money and money shapes the social being of a person.

In a parallel view, Thompson (2011) cited that one significant impact of job employment arising from SMEs is an access to education. Education is an engine of growth to which business of all sorts derive human capital. In this sense, employees will be able to send their families to good schools, colleges or universities. In the long run, when people get a good education, they will either become a productive employee or even a creative employer.

Thomas (2008) espouses this idea that as people are being empowered through employment, they become self-sufficient or at the very least, able, thereby reducing incidence of unemployment, hunger, domestic violence and poverty which is basically the root cause of crime and insurgence. Also, he cited that health comes with financial empowerment, specifically citing easy provision of good food, availment of medication and other health services and good grooming and sanitation.

SMEs are not just vital cog of economy but also an essential platform for social development where human capital can be acquired and social integration can be ensured.

### 3.3 Challenges to SME Development and Achievement

In every rule there is always an exemption is tantamount to saying that in every venture there are always humps and bumps. Vaaland, et al. (2007) have pointed out that SMEs are not spared of the same reality, considering the many facets that affect the success of such. Vaaland cited that specific grounds have been putting on weight on SMEs' success. This includes low financial capital, lack of effective management, lack of marketing strategy and location, etc. With their collusion SMEs are relegated in a disadvantage point to which SME owners must lay strategies to address.

Low financial capital is a business risk. In the course of business management, this may pose possibility of financial drain or bankruptcy once business tremor and economic crisis happen. Al Mudawi (2012) cited in his study two adverse effects of which, such as: self-limitation and low trust rating. According to him, self-limitation is having the lack of power to expand or to take leaps out of the bounds while low trust rating necessarily touches the core of credit power where *"the less the capital, the less the confidence of banks or lending institutions to entrust their resources"*. Similar opinion has surmised in the thought of Rufino, et al. (2007) who brought out that lack of capital stems out debt incidence and unstable employee -employer relationship.

Lack of effective management has always been a huge threat to SMEs. This is counterproductive in all sense. A report released by Oman's Ministry of Commerce played this up as the main reason for collapse of most SMEs in the sultanate. The report has mentioned specifically the far -flung regions as the most susceptible location for such a phenomenon.

Lack of marketing strategy and marketing opportunity are two essential factors that can make or break a business. These arise from poor management skill and poor selection of staff. In his study, Lee (2013) posited that poor marketing strategy results in low sales, low profit and low incentive to employees. With this, he suggests to innovate marketing approach by engaging in a more dynamic platform such as TV, radio, Newspaper and the Internet.

In their humble valuation, Baughn et al. (2006) have thought that management problem arising from finance, operations, human resource and marketing are major challenges that are not to be overlooked but are instead to be assessed and evaluated promptly to be able to create strategic action that is productive in nature before they can multiply into other issues.

Additionally, Saleh et al. (2006) have explained that cost of operation has a high demand among small and medium businesses and yet they technically keep low investment which is insufficient to cover cost of operations. Saleh et al, have opined that this poses a compelling reason for business owners to increase financial input in order to address necessities such as supply chain and production so as to bring about stimulus for growth and expansion.

In a parallel note, Peliinen (2013) asserted that not only are SMEs confined with management issues but also at time when the demand for their products and services are sought by consumers. This means loyalty or patronage but is not always good. The reality

is that the higher the demand, the higher the cost of production, which in certain condition, is beyond the capacity of some SMEs to which Hertog (2010) proposes that there must always be a contingency fund for every SME.

On the other side, SMEs are also faced with technical issues where government policies take toll against SMEs' opening or expansion of business. Considerably in Oman as cited by Soonthornthada (2000), government imposes stiff restrictions and regulations on business, not to mention the long paper trail in processing permits from issuing authorities. Subsequently, this will create a chilling effect to current and prospective owners to stop the business or not to open any at all.

### **3.4 SME Financial Risk**

Business has always been a complex process where success, risk and failure are constant part. Limmer (2008) has opined that 60% of SMEs in Europe are susceptible to financial risk. In his research, he has found out that financial risks are the greatest failure factors among SMEs for which he suggested an integrative and innovative approach to handling operations and to propelling business drive.

Truly, SME is not without risks. They always face different types of risks, which includes, but not limited to interest rate, amount of credit, and market risk. For some reason, interest rate is believed to be to be a critical factor comprising financial risk. Candidly, lending institutions like banks and other financial instrumentalities offer loans at a specific percentage, or in some point at an exceedingly abusive rate, in which SME owners end up critically indebted. This is so because of occasional moody profit where high and lows interchange amidst skyrocketing cost of production, logistics, utilities and remuneration.

In a parallel view, De Leon (2009), doing the statistics, came up with the thought that unreasonable interest rates essentially increase the cost of any business activity. Further, he opined that adjustable interest rate may pose adverse impact to business as fluctuation is basically influenced by monetary policy.

Secondly, Amount of Credit. This is an important indicator of the worth of a company wherein banks and lending institutions assess company's assets, financial capacity and even financial history to determine the amount to lend the company owner. In such a case, small enterprises get a proportional chunk of credit, in the same way as big enterprises. In extreme cases however, small enterprises can do a remedial approach with banks and lending firms to gain higher loans for business expansion. It is for this reason that Medelly (2010) suggests that SMEs must take caution in dealing with financial credits or loans as risk of mismanagement is highly inevitable especially in an environment where competition is high, and demand and supply is unstable.

Thirdly, Cash Flow. This represents an essential part in financial risk. Quietly, SME owners use external finances to jumpstart new enterprises. In such a case, owners are obligated to a fixed cash outflow and amortization whether profit is good or not. As a matter of fact, lending institutions like banks are not kin to freeing SMEs from footing

loan payments even as disruption and economic crisis plague a country. Such a situation puts SMES at risk of downturn.

### **3.5 Growth Interventions**

In the point of view of economics, growth is essentially the target of any business activity. Intervention on the hand is an input at instances where profitability is lagging behind and operation is mired by pressing factors.

Rodrik (2005) has claimed that growth intervention or strategy is a technical approach to stirring business ventures towards expansion. This as well involves assessing and addressing issues either statistically or cognitively. Similarly, as opined by Quinn et al. (1997) financial condition determines growth strategies. In layman's term, a business with a strong financial status may opt for an expansion and a weak one may maintain the status quo. Nevertheless, it is always important and may be put a matter of priority even at the worst of situations to expand so as not to lose market share and competitive advantage.

In his humble perspective, Carman, et al (1980) posits that growth strategies must be anchored on actual situation and on existing economic condition of any given economic environment, for which he suggests growth strategy types that are aligned with financial and market condition, such as: market penetration, market expansion, product expansion, diversification of products and business expansion.

### **3.7 SME and the Omani Perspective**

Oman has long been in the threshold of economic boom with its clear brainchild of dynamic economic input by the late Sultan Qaboos Bin Said. As an active agent of peace and humanitarian process, Oman has inked major trade partnership and alliance with the first-world countries, thereby gaining competitive advantage over a period of time amongst Arab countries. In fact, as reported in Oman Observer, the country has further improved its status as it opened doors to improving its essential infrastructures, such as: seaports, roads, highways and airports. The new Muscat International Airport has vitally brought about vibrant change in the direction of economy, which by far, has created huge revenue collection from airlines, not to mention the creation of thousand jobs for both Omanis and expatriates.

In a parallel report released by the Times of Oman in 2018, the improvement of infrastructure has tremendously stirred the economy at a growth rate of 75 % in GDP in the last 2 years, which, at the point of view of economy, means strong economic performance. At this rate, government is left with the prerogative to diversify the economy at the expense of the improved facilities and infrastructure. In effect, tourism has come out far better in much the way as logistic, oil and mining industries. For its, part SMEs have shared bigger revenues as this change has stimulated profitability at a high level.

In a study conducted by Ashrafi and Murtaza (2010), it has been noted that Oman government has taken leaps and bounds to the diversification of national economy in an

effort to provide income for people by creating more jobs. Asharfi has cited that Omanis have been in competition with expatriates as to job placement, citing particularly that a multitude of foreign workers are enjoying better salary package than some Omanis. It is for the same reason that Ashrafi believes Omani government is pushing for Omanization to be able to address unemployment rate among Omanis and to balance the remuneration disparity.

Al -Lamki (2000) is of the same thought, saying that Omanization is an economic strategy that is bent to give locals employment opportunities, particularly in SMEs. Al-Lamki also further believes that SMEs are serving forefront to Omanization since only basic skill is required in the said sector, which is suitable to even high school graduates, but then he calls for government support in order to keep SMEs on track.

In further analysis, Almainani, (2015) points out that the growth curve of SMEs has begun and is the right time for high government input. Admittedly, SMEs contribution to GDP is insignificant but, there is no denying that it plays a vital role in curbing domestic issues and unemployment.

## **4. Discussion**

### **4.1 What is the obtaining condition of SMEs in Oman as to risks and challenges?**

#### **A. Policy and Administrative challenges**

Researches, surveys, reports and the like point to the fact that SMEs and individual business whether established at home or in strategic locations struggle in acquiring business licenses. The Ministry of Commerce and Industry has a long paper trail for granting such a license to operate. Resultedly, SMEs are hindered to expand or even to initiate. Literatures also cite that government authorities are also strict enough to regulate manpower, specifically on skilled and trained expatriates due to the Omanization program.

#### **B. Financial challenges**

Reports show that SMEs, as operating in a minimum capital, are faced with the burden of loan interest rates from banks and other lending institutions. This is counterproductive to some extent, but SMEs need to survive and of no choice.

#### **C. Technical challenges**

Reports say that lack of manpower, logistics and skills hinder growth and productivity.

#### **D. Marketing challenges**

Reports show that SMEs lack access to digital platform. This is because of the expensive cost of airtime on TV, radio and internet. For some reason, SMEs struggle to introduce themselves considering their lack of manpower and resources. Knowingly, marketing is an essential force in the propelling any business. This dilemma affects SMEs in Oman as the government has no direct support on this.

#### **E. Education and training challenges**

Skill, training and expertise are essential growth factors. These essentially provide SMEs a standpoint and a strategic location in the business world. However, in the case of Oman,



SMEs struggle in hiring highly qualified staff due to limited resources for competitive remuneration package.

#### **4.2 What is the essence of financial risk evaluation to SMEs in Oman and its impact to credit supply?**

Strategic risk management is a process of testing, analyzing, and streamlining systems for addressing risks besetting any SME. In the case of Oman, risk evaluation on finance and other vital components could lead to greater understanding of the nature and issues of the industry, leading to a strategic plan and operation program. This also impacts largely on business efficiency as problems are traced in accordance with the obtaining condition. With this, quality control, management direction and credit ratings will be ensured as much as productivity and profit.

#### **4.3 What intervention approach are available to ensure sustainability and competitiveness of SMEs in Oman?**

Government support is the best way possible to ensure sustainability of SMEs. The fact that the government has a full control of power, and the authority on the financial domain of the country tells of a powerful force to lift the SME sector. Specifically, it can provide training and seminars to enhance skills of workers and provide financial grants at a reasonable rate to increase SME potentialities in the market.

### **5. Recommendation**

In the light of the foregoing, it is hereby recommended that SMEs must create a community of good practices and share with other sectors the opportunities, challenges, innovations and discoveries to expand mutual understanding on the rudiments of sustainable growth and development.

An integrative socio-political approach is instrumental in ensuring growth and sustainability, which means that government instrumentalities and their private counterpart along with efficient social input must go hand in hand to forge stronger direction to stir grassroot economy which is the main agenda of SMEs.

Underlying factors such as, finance, managerial skill, market strategy and human resource must as well be capitalized in a dynamic approach.

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